

Proposed 2004-05 Annual Budget



TO THE HONORABLE MAYOR AND CITY COUNCIL:

This letter transmits a proposed budget for the upcoming 2004-05 fiscal year. This budget is balanced and includes recommendations for all city funds.

For the third straight year we have to make General Fund cuts. In 2002-03 we cut \$23 million in General Fund costs; in 2003-04 we cut another \$72 million for a two-year total of \$95 million. Our cut for next year - \$7 million - is considerably less but challenging because of the previous two years of cuts. Service cuts were unavoidable. Following the priorities of the mayor and City Council and the community, no reductions were made to public safety services. Instead, significant increases are recommended for the Police and Fire departments. All other General Fund departments were cut by 1.5 percent.

We regret the reductions in community services. Restoring these services will be a high priority as the economy improves.

Community Budget Hearings

This budget transmittal includes a detailed explanation of the resources estimated to be available next year and of the expenditures recommended for the 2004-05 budget. First, however, I want to thank our residents who attended one or more of our 14 budget hearings and shared their thoughts about the proposed budget. I also want to thank the city boards and commissions who provided time to review and discuss the proposed budget.

We are proposing few changes to the Trial Budget. Funding for these changes will come from \$98,000 in various cost savings identified by city departments and by continued reviews by the Budget and Research Department. In addition, the proposed budget included funding for opening a fire station still being sited. This station will not be ready for opening next year which provides additional savings of \$99,000. Therefore, total savings available for changes to the budget is \$197,000. As a result of our community budget hearings, we have allocated these funds as follows.

We recommend that two specialized transportation contracts that serve the senior and disabled community in the Human Services Department be restored. We also recommend that adult arts programming be restored. Restoring these programs will require a proposed fee increase for arts classes, a slight reduction in planned operating costs for new Parks facilities, and some additional city funding.

We recommend that funding be provided to bridge the time between the closing of the Friendship PAL center and the opening of the Maryvale Community Center. This funding makes it possible for Parks staff to provide interim transportation to the Desert West and Marc Atkinson community centers.

We recommend that a portion of the reduction proposed for summer youth jobs, arts grants and capital blight elimination be restored. We also recommend that a small increase be provided for the purchase of library books and we've included a small amount of support funding for the continuing development of Camp Colley. These funds plus the help of existing staff will provide support for fund raising and other administrative details.

General Fund Shortfall Estimated for 2004-05

For next year, we expect the Phoenix metropolitan area economy to continue to improve with overall General Fund revenue growth of around 6 percent. This is much improved over the 3.7 percent revenue growth being counted on for the current year. Unfortunately, there are several significant costs that have to be included in next year's General Fund budget. These costs include:

- \$8.4 million for the operation of new capital facilities. These facilities were constructed with 2001 bond funds, impact fees and parks and preserves funds. While these costs add some strain to next year's General Fund budget, they also represent a significant investment in facilities to be enjoyed by the community. Many of these new facilities will provide improvements to the delivery of public safety services including a new neighborhood police station



at 24th Street and Broadway Road, additional 800 MHz radio channels for the Police Department and new fire stations. Numerous new Parks facilities will be ready for operation next year as well as new branch libraries.

- \$1.3 million to transition 28 police officers from expiring federal grants to the General Fund.
- \$12.5 million to acquire General Fund replacement vehicles and equipment with pay-as-you-go funding rather than lease purchase funding. We also will begin making payments next year on funds borrowed over the last few years.
- Compensation costs recently negotiated with our employee unions including rising health care and pension costs.

These unavoidable costs outpace the revenue growth expected for next year leaving us with a \$7 million shortfall. We recommend General Fund cuts to close this gap. With the exception of the Police and Fire Departments, expenditure reductions of 1.5 percent are recommended for all General Fund departments. As mentioned previously, some service cuts were necessary.

Improvements Will Result for Police, Fire and Parks

The proposed budget presented here includes a detailed explanation for the recommendations being made for each city department. Provided below is an overview of the recommendations for the Police, Fire and Parks departments – our three largest General Fund departments. Due to new capital facilities coming on line, these three departments will be able to provide improved services to the community. Also, despite the General Fund shortfall, several other additions to the Police Department are recommended.

Police Department

The recommended budget includes funding for a new crime lab supervisor to improve data management and reporting and to improve quality control processes. Also for the crime lab, funding is recommended for five lab technicians for the DNA, controlled substances, firearms and latent print sections.

We also recommend using grant funds to add 10 police officers to help keep up with population growth. Also, included in the list of unavoidable costs for the upcoming year is \$1.3 million to transition 28 police officers from expiring federal grants to the General Fund. Thirty-three communications operators are proposed for staffing the additional radio channels provided by the newly constructed 800 MHz radio system.

Finally, the recommended budget includes \$1.3 million to staff the new neighborhood police station at 24th Street and Broadway Road. This facility will be shared with the Neighborhood Services Department.

Fire Department

The recommended budget for the Fire Department includes staff and equipment to open new fire stations. These recommendations include \$2.2 million and 61 new positions. Fire Station 54 at 99th and Campbell avenues will house a paramedic engine company, a brush truck and a water tanker. A paramedic engine company and a rescue will be located in new Station 32 at 40th Street and Baseline Road. New station 56 at I-17 and the Carefree Highway will house a paramedic engine company and a rescue.

Also included is the general funding required to fully implement the 800 MHz system for the Fire Department. These

funds include software installation services, infrastructure maintenance and repair, network security maintenance and an increased microwave communication link.

Parks and Recreation Department

In order to close the General Fund deficit, our recommendations for the Parks and Recreation Department have to include some service reductions. We have worked very hard to minimize the impact on the community especially our youth. Recommended cuts include holding several maintenance and recreation positions vacant. We also have recommended merging five PAL programs with other appropriate recreation programs. All current PAL participants should continue to have easy access to recreation. These actions reduce costs without significantly reducing youth recreation opportunities.

While these cost reductions for the Parks Department are unfortunate, they are more than offset by \$2.9 million in funding recommended to open and operate seven newly developed parks, two new parks community facilities, and to operate and maintain the amenities added to six existing Parks facilities. Finally, funding is included to maintain improvements to the Rio Salado Habitat Restoration Project and the Laveen Area Conveyance Channel. Support costs to help existing staff coordinate the activities of Camp Colley are included.



Recommendations for the Transit 2000 Fund

As mentioned earlier, our recommended budget includes all city funds. Recommended improvements for the Transit 2000 Fund include significant improvements to the Dial-A-Ride system including more hours of service on weekdays, weekends and holidays. Funding for improvements to customer service also is recommended to reduce telephone wait times. Also recommended for the Transit 2000 Fund is additional RAPID trips in existing corridors and, in partnership with the city of Avondale, an extension of the Green Line.

Recommendations for Other Non-General Funds

We also have recommended several funding items for the self-supporting Solid Waste, Aviation, Water and Wastewater funds to keep up growing areas of the city, new facilities coming on line and more stringent environmental standards.

Further Cost Savings Provide Some Service Improvements and Needed Administrative Support

For many years we have given city departments the opportunity to use cost savings within their budgets to fund community service improvements or, in some cases, needed administrative support. This year, a few departments have proposed several positions that will result in direct service improvements as well as improved administrative support. Included among the service improvements that will occur is additional counter

support for the Development Services Department, additional support for the capital improvement program, an additional neighborhood inspector, and an additional reserve-a-ride bus operator.

The Public Works Department also proposed a new, more aggressive fleet warranty program. This proposed program is responsible for generating some of the savings used to respond to our community budget hearings.

Looking Ahead

Over the past three years, Phoenix has faced serious budget challenges. In response, we have made cuts of more than \$100 million. Cutting budgets is difficult for the mayor and City Council; for city staff and for the community. But looking ahead, there are many positive things for Phoenix. The 2001 Bond Program remains positioned to be completed in five years. Next year we will begin work on the 2006 Bond Program. Implementation of the Phoenix Transit Plan, approved by the voters in March 2000, is also well underway. The plan includes point-to-point commuter service, extended hours and routes for bus service, improved Dial-A-Ride service and upgraded security. Recently, ground was broken on the HOPE VI revitalization project. The Civic Plaza expansion project is underway.

During our budget work study session of Feb. 3 we discussed with the mayor and City Council the importance of managing our General Fund revenue base. Since 1971, retail sales have declined from 58 percent of the Arizona economy to 34 percent of the Arizona economy. That decline in retail sales has been replaced with Internet sales and the service sector both of which are not taxed. It's time to re-focus our efforts on strategically growing our retail base and to discuss and study taxing the service sector of the economy.

Conclusion

The mayor and City Council are scheduled to make their final budget decisions on May 11. We will continue to carefully monitor revenues and to look for expenditure savings. We will report any resources that might be available to make changes to this proposed budget.

I want to thank the mayor and City Council and the community for their work in balancing the city budget. I also want to thank all city departments for working together as a team to put together workable budget reduction proposals.

Finally, I want to thank all city employees who deliver the best in community services every day. Despite the budget cutbacks of the last few years, city employees continue to be dedicated to delivering high quality services and to doing what is best for the community.

Sincerely,



Frank Fairbanks
City Manager
May 4, 2004